

**MEADE COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2009**

TABLE OF CONTENTS

Independent Auditor's Report	1-2
Management Discussion and Analysis	3-9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	16
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund	17
Statement of Net Assets – Proprietary Funds	18
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	19
Statement of Cash Flows – Proprietary Funds	20
Statement of Fiduciary Net Assets – Fiduciary Funds	21
Notes to Basic Financial Statements	22-36

TABLE OF CONTENTS (CONTINUED)

Supplementary Information:

Combining Statement – Non-Major Funds:

Combining Balance Sheet – Non-Major Governmental Funds	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental Funds	38
Combining Statement of Revenues, Expenditures and Fund Balances – Agency Funds	39
Statement of Receipts, Disbursements and Fund Balance – High School Activity Fund	40
Schedule of Expenditures of Federal Awards	41
Notes to Schedule of Expenditures of Federal Awards	42
Schedule of Findings and Questioned Costs	43
Schedule of Prior Year Audit Findings	44
Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	45-46
Independent Auditor’s Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	47-48
Management Letter Comments	49-50
Letter to Those Charged with Governance	51-53

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

November 10, 2009

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of Meade County School District's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Kentucky State Committee for Schools District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract – State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Meade County School District as of June 30, 2009, and the respective changes in financial position, and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and the Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2009, on our consideration of Meade County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on Pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Meade County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Meade County School District. The combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

MEADE COUNTY SCHOOL DISTRICT – BRANDENBURG, KENTUCKY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2009

The discussion and analysis of Meade County School District’s financial performance provides an overall review of the School District’s financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to review the School District’s financial performance as a whole. Readers should also review the basic financial statements and notes to the basic financial statements to enhance their understanding of the School District’s financial performance.

The Management’s Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in the Statement No. 34 *Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$17.3 million. This reflects a decrease in cash from 2008 of \$4.6 million. This decrease is attributable to the ongoing construction and renovations of Flaherty Elementary School.
- Instructional expenditures increased by \$1.7 million.
- The District issued a total of \$10.9 million in revenue bonds to finance the renovation and expansion of Flaherty Elementary School. This bond issuance occurred subsequent to June 30, 2009.
- The food service fund ended the school year with a net loss of \$76 thousand. In this fund, expenses were unchanged from 2008 while operating revenue increased by \$60 thousand, and non-operating income increased by \$71 thousand.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District’s assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform accounting system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. The proprietary funds are our food service operation. The only fiduciary funds are agency funds. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 12 - 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 – 36 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$46.2 million as of June 30, 2009.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that is outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net Assets for the periods ending June 30, 2009 and 2008
(Table 1)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 19,139,446	\$ 24,263,584	\$ 243,684	\$ 56,354	\$ 19,383,130	\$ 24,319,938
Capital Assets	68,102,863	62,060,539	619,183	570,213	68,722,046	62,630,752
Total Assets	87,242,309	86,324,123	862,867	626,567	88,105,176	86,950,690
Long-term Debt	37,932,720	39,657,425	-	-	37,932,720	39,657,425
Other Liabilities	3,698,515	3,482,566	240,523	54895	3,939,038	3,537,461
Total Liabilities	41,631,235	43,139,991	240,523	54895	41,871,758	43,194,886
Net Assets						
Investment in capital assets (net of debt)	29,107,863	21,395,539	619,183	570,213	29,727,046	21,965,752
Restricted	5,548,204	9,038,549	-	-	5,548,204	9,038,549
Unrestricted	10,955,007	12,750,044	3,161	1,459	10,958,168	12,751,503
Total Net Assets	\$ 45,611,074	\$ 43,184,132	\$ 622,344	\$ 571,672	\$ 46,233,418	\$ 43,755,804

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The District put into service \$7.3 million in capital assets. Also, construction in progress totaled \$1.8 million at year end.

Comments on Budget Comparisons

- The District's total revenues for the fiscal year ended June 30, 2009, net of interfund transfers and bond proceeds, were \$42.6 million.
- General fund budget compared to actual revenue varied from line item to line item with the ending actual balance being \$6.8 million more than budget or approximately 25%. The variance is primarily explained by unbudgeted on-behalf payments made by the State of Kentucky in the amount of \$6 million for employee retirement and insurance.
- General fund budget expenditures to actual varied significantly in Instruction and Facilities Construction, and Other. The variance for instructional expenses is caused by the state on-behalf payments detailed above. General Fund monies were not required for facilities construction in the current year.

**Summary of Changes in Net Assets for the periods ending June 30, 2009 and 2008
(Table 2)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
REVENUES:						
Program revenues:						
Charges for Services	\$40,440	\$16,596	\$919,825	\$859,554	\$960,265	\$876,150
Operating grants and contributions	3,490,211	4,194,913	1,563,339	1,491,051	5,053,550	5,685,964
Capital grants and contributions	3,363,517	2,979,190	127,158	417,908	3,490,675	3,397,098
General revenues:						
Property taxes	4,937,918	5,110,024	-	-	4,937,918	5,110,024
Motor vehicle taxes	1,037,568	870,701	-	-	1,037,568	870,701
Utility taxes	1,021,084	921,129	-	-	1,021,084	921,129
Other taxes	57,269	83,370	-	-	57,269	83,370
Investment earnings	584,684	981,750	1,364	1,923	586,048	983,673
State and formal grants	27,947,387	27,374,989	-	-	27,947,387	27,374,989
Gain (loss) on asset disposal	14,130	25,540	-	-	14,130	25,540
Miscellaneous	151,183	198,558			151,183	198,558
Total Revenues	<u>42,645,391</u>	<u>42,756,760</u>	<u>2,611,686</u>	<u>2,770,436</u>	<u>45,257,077</u>	<u>45,527,196</u>
EXPENSES:						
Program Activities:						
Instruction	26,078,793	24,402,970	-	-	26,078,793	24,402,970
Student Support	2,089,687	2,235,463	-	-	2,089,687	2,235,463
Instructional staff support	1,411,421	1,505,142	-	-	1,411,421	1,505,142
District administrative support	813,575	697,268	-	-	813,575	697,268
School administrative support	1,683,069	1,971,956	-	-	1,683,069	1,971,956
Business support	430,032	500,417	-	-	430,032	500,417
Plant operation and maintenance	3,588,399	3,868,951	-	-	3,588,399	3,868,951
Student transportation	2,270,931	2,375,677	-	-	2,270,931	2,375,677
Facilities acquisition	-	442,197	-	-	-	442,197
Community service activities	370,394	376,958	-	-	370,394	376,958
Other	11,833	3,245	-	-	4,882	3,245
Interest cost	1,470,315	721,104	-	-	1,470,315	721,104
Business-type Activities:						
Food service	-	-	2,561,014	2,561,281	2,561,014	2,561,281
Total Expenses	<u>40,218,449</u>	<u>39,101,348</u>	<u>2,561,014</u>	<u>2,561,281</u>	<u>42,779,463</u>	<u>41,662,629</u>
Increase (decrease) in net assets	<u>\$2,426,942</u>	<u>\$3,655,412</u>	<u>\$50,672</u>	<u>\$209,155</u>	<u>\$2,477,614</u>	<u>\$3,864,567</u>

Governmental Activities

Instruction comprises 65% of governmental program expenses. Support services expenses make up 30% of government expenses. The remaining expenses for facility acquisition, community service activities, and interest account for the final 5% of total governmental expense.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

**Cost of Governmental Activities
(Table 3)**

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 26,078,793	\$24,402,970	\$23,354,198	\$21,071,194
Support Services	12,298,947	13,158,119	11,855,604	12,645,635
Community Services	370,394	376,958	7,681	9,079
Facilities Acquisitions	-	442,197	(3,363,517)	(2,536,993)
Interest Costs	1,470,315	721,104	1,470,315	721,104
Total Expenses	\$ 40,218,449	\$39,101,348	\$33,324,281	\$31,910,649

Business-Type Activities

The business-type activities include the food service operation. This program had total revenue of \$2,611,686 and expenses of \$2,561,014 for fiscal year 2009. Of the revenues, \$919,825 was charges for services, and \$1,690,497 was from State and Federal grants. Business activities receive no support from tax revenues. The School District will continue to monitor the charges and costs of this activity. Meal prices for students and staff were increased for the 2008-09 school year.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$42.6 million and expenditures and other financing uses of \$47.8 million. \$8.5 million of the total expenditures was for construction projects and other capital assets.

General Fund-Budget Highlights

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The State Department of Education requires a zero-based budget with any budgeted remaining fund balance shown as a contingency expense in the budget process.

Capital Assets and Debt Administration
Capital Assets

At the end of fiscal year 2009 the School District had \$68.7 million invested in land, buildings, equipment, and construction in progress. Of this total, \$68.1 million were in governmental activities. Table 4 shows fiscal year 2009 and 2008 balances.

Capital Assets at June 30, 2009 and 2008
Net of Depreciation
(Table 4)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	\$2,020,905	\$1,649,481	\$ -	\$ -	\$2,020,905	\$1,649,481
Land improvements	1,132,542	1,248,005	-	-	1,132,542	1,248,005
Buildings and improvements	60,162,848	55,670,681	-	-	60,162,848	55,670,681
Technology	752,771	816,889	3,418	4,675	756,189	821,564
Vehicles	1,669,023	1,671,069	-	-	1,669,023	1,671,069
General equipment	519,595	582,298	615,764	565,538	1,135,359	1,147,836
Total	66,257,684	61,638,423	619,182	570,213	66,876,866	62,208,636
Construction in progress	1,845,179	422,116	-	-	1,845,179	422,116
Total	<u>\$68,102,863</u>	<u>\$62,060,539</u>	<u>\$619,182</u>	<u>\$570,213</u>	<u>\$68,722,045</u>	<u>\$62,630,752</u>

**Changes in Capital Assets for the periods ended June 30, 2009 and 2008
(Table 5)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Beginning Balance	\$62,060,539	\$50,561,994	\$570,213	\$204,331	\$62,630,752	\$50,766,325
Additions	8,577,118	13,244,391	127,318	442,197	8,704,436	13,686,588
Retirements	(686)	(1,398)	-	-	(686)	(1,398)
Depreciation	(2,534,108)	(1,744,448)	(78,349)	(76,315)	(2,612,457)	(1,820,763)
Ending Balance	<u>\$68,102,863</u>	<u>\$62,060,539</u>	<u>\$619,182</u>	<u>\$570,213</u>	<u>\$68,722,045</u>	<u>\$62,630,752</u>

Construction began on renovation to Flaherty Elementary during the year ending June 30, 2009. The costs incurred to date are shown as construction in progress at June 30, 2009.

Debt

At June 30, 2009, the School District had \$38,995,000 in bonds outstanding; of this amount \$2,151,656 is to be paid from the KSFCC funding provided by the State of Kentucky. A total of \$1,725,000 is due within one year.

District Challenges for the Future

Meade County School District continues to be financially sound. However, the current state and national financial climate requires the District to remain prudent. The District has been required to provide financial support for unfunded mandates imposed by the state and federal government.

Meade County Schools will continue to use careful planning and monitoring of finances to provide a quality education for students and a secure financial future for the school district.

Future Budgetary Implications

In Kentucky, the public schools' fiscal year is July 1 – June 30; other programs, i.e. some federal programs, operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2009 – 2010 with a contingency greater than the required minimum of 2%. Projected budgetary shortfalls at the state level are a concern for the 2009-10 school year.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional information contact Susan Fackler, CPA, Finance Officer, 1155 Old Ekron Road, Brandenburg, Kentucky, 40108, (270) 422-7500.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	17,332,217	22,353	17,354,570
Accounts Receivable:			
Taxes - Current	117,692		117,692
Taxes - Delinquent	20,152		20,152
Accounts Receivable	231,874	174,884	406,758
Intergovernmental - State	136,306		136,306
Intergovernmental - Federal	300,082		300,082
Bond Issue Costs	1,001,123		1,001,123
Inventories for Consumption		46,447	46,447
Total Current Assets	19,139,446	243,684	19,383,130
Noncurrent Assets - Note F			
Land	2,020,905		2,020,905
Construction In Progress	1,845,179		1,845,179
Buildings & Improvements	77,589,488		77,589,488
Furniture & Equipment	7,604,059	1,604,118	9,208,177
Less: Accumulated Depreciation	(20,956,768)	(984,935)	(21,941,703)
Total Noncurrent Assets	68,102,863	619,183	68,722,046
TOTAL ASSETS	87,242,309	862,867	88,105,176
LIABILITIES:			
Current Liabilities:			
Accounts Payable	1,128,742	240,523	1,369,265
Accrued Payroll and Related Expenses	85,686		85,686
Accrued Sick Leave - Note A	120,117		120,117
Deferred Revenues	296,746		296,746
Bond Obligations - Note E	1,725,000		1,725,000
Accrued Interest Payable	342,224		342,224
Total Current Liabilities	3,698,515	240,523	3,939,038
Noncurrent Liabilities:			
Bond Obligations - Note E	37,270,000		37,270,000
Accrued Sick Leave - Note A	662,720		662,720
Total Noncurrent Liabilities	37,932,720		37,932,720
TOTAL LIABILITIES	41,631,235	240,523	41,871,758
NET ASSETS:			
Invested in Net Assets, Net of Related Debt	29,107,863	619,183	29,727,046
Restricted for:			
Capital Projects	5,369,606		5,369,606
Other Purposes	178,598		178,598
Unrestricted	10,955,007	3,161	10,958,168
TOTAL NET ASSETS	45,611,074	622,344	46,233,418
TOTAL LIABILITIES AND NET ASSETS	87,242,309	862,867	88,105,176

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	26,078,793	40,440	2,684,155		(23,354,198)		(23,354,198)
Student Support Services	2,089,687		37,589		(2,052,098)		(2,052,098)
Staff Support Services	1,411,421		342,072		(1,069,349)		(1,069,349)
District Administration	813,575				(813,575)		(813,575)
School Administration	1,683,069		46,682		(1,636,387)		(1,636,387)
Business Support Services	430,032				(430,032)		(430,032)
Plant Operation & Maintenance	3,588,399		17,000		(3,571,399)		(3,571,399)
Student Transportation	2,270,931				(2,270,931)		(2,270,931)
Central Office	4,882				(4,882)		(4,882)
Food Service Operations	6,951				(6,951)		(6,951)
Community Service Operations	370,394		362,713		(7,681)		(7,681)
Facilities Acquisition & Construction				3,363,517	3,363,517		3,363,517
Interest on Long-Term Debt - Note Q	1,470,315				(1,470,315)		(1,470,315)
TOTAL GOVERNMENTAL ACTIVITIES	40,218,449	40,440	3,490,211	3,363,517	(33,324,281)		(33,324,281)
BUSINESS-TYPE ACTIVITIES:							
Food Service	2,561,014	919,825	1,563,339	127,158		49,308	49,308
TOTAL BUSINESS-TYPE ACTIVITIES	2,561,014	919,825	1,563,339	127,158	0	49,308	49,308
TOTAL SCHOOL DISTRICT	42,779,463	960,265	5,053,550	3,490,675	(33,324,281)	49,308	(33,274,973)
GENERAL REVENUES:							
Taxes					7,053,839		7,053,839
State Aid - Formula Grants					27,947,387		27,947,387
Investment Earnings					584,684	1,364	586,048
Miscellaneous					115,359		115,359
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					14,130		14,130
Loss Compensation					35,824		35,824
TOTAL GENERAL & SPECIAL					35,751,223	1,364	35,752,587
CHANGE IN NET ASSETS					2,426,942	50,672	2,477,614
NET ASSETS - BEGINNING					43,184,132	571,672	43,755,804
NET ASSETS - ENDING					45,611,074	622,344	46,233,418

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	GENERAL FUND	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	11,348,124	7,645	3,615,428	2,361,020	17,332,217
Accounts Receivable:					
Taxes - Current	117,692				117,692
Taxes - Delinquent	20,152				20,152
Accounts	215,072		12,361	4,441	231,874
Intergovernmental - State	932	135,374			136,306
Intergovernmental - Federal		300,082			300,082
TOTAL ASSETS	<u>11,701,972</u>	<u>443,101</u>	<u>3,627,789</u>	<u>2,365,461</u>	<u>18,138,323</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	623,027	146,355	438,110	6,936	1,214,428
Accrued Sick Leave	120,117				120,117
Deferred Revenues		296,746			296,746
Total Liabilities	<u>743,144</u>	<u>443,101</u>	<u>438,110</u>	<u>6,936</u>	<u>1,631,291</u>
Fund Balance:					
Reserved for:					
Accrued Sick Leave	662,720				662,720
Unreserved:					
Capital Projects Fund			3,189,679	2,179,927	5,369,606
Debt Service Fund				178,598	178,598
Other Purposes	10,296,108				10,296,108
Total Fund Balance	<u>10,958,828</u>	<u>0</u>	<u>3,189,679</u>	<u>2,358,525</u>	<u>16,507,032</u>
TOTAL LIABILITIES AND NET ASSETS	<u>11,701,972</u>	<u>443,101</u>	<u>3,627,789</u>	<u>2,365,461</u>	<u>18,138,323</u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

TOTAL GOVERNMENTAL FUND BALANCE		16,507,032
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	89,059,631	
Accumulated Depreciation	<u>(20,956,768)</u>	68,102,863
Bond Issuance Costs		1,001,123
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(38,995,000)	
Accrued Interest on Bonds	(342,224)	
Accrued Sick Leave	<u>(662,720)</u>	<u>(39,999,944)</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES		<u><u>45,611,074</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	GENERAL	SPECIAL REVENUE FUND	CONSTRUCTION FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes	5,153,839			1,900,000	7,053,839
Earnings on Investments	471,479		84,752	28,453	584,684
Intergovernmental - State	27,791,294	1,411,443		3,538,789	32,741,526
Intergovernmental - Federal	27,773	2,031,816			2,059,589
Other Sources	108,848	46,951			155,799
TOTAL REVENUES	33,553,233	3,490,210	84,752	5,467,242	42,595,437
EXPENDITURES:					
Instructional	21,682,408	2,780,501			24,462,909
Student Support Services	2,052,099	37,588			2,089,687
Staff Support Services	1,064,642	342,072			1,406,714
District Administration	779,670				779,670
School Administration	1,645,982	46,682			1,692,664
Business Support Services	427,216				427,216
Plant Operation & Maintenance	3,254,610	17,000		300,290	3,571,900
Student Transportation	2,275,173				2,275,173
Food Service Operation	6,951				6,951
Community Service Operations	6,417	362,713			369,130
Adult Education Operations					
Facilities Acquisition & Construction	366,207		6,799,997	386,325	7,552,529
Debt Service:					
Principal				1,670,000	1,670,000
Interest				1,550,398	1,550,398
TOTAL EXPENDITURES	33,561,375	3,586,556	6,799,997	3,907,013	47,854,941
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(8,142)	(96,346)	(6,715,245)	1,560,229	(5,259,504)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds					0
Proceeds from Sale of Assets	50,640				50,640
Operating Transfers In - Note O		96,346	3,168,447	3,038,097	6,302,890
Operating Transfers Out - Note O	(96,346)			(6,206,544)	(6,302,890)
TOTAL OTHER FINANCING SOURCES	(45,706)	96,346	3,168,447	(3,168,447)	50,640
NET CHANGE IN FUND BALANCES	(53,848)	0	(3,546,798)	(1,608,218)	(5,208,864)
FUND BALANCES - BEGINNING	11,012,676	0	6,736,477	3,966,743	21,715,896
FUND BALANCES - ENDING	10,958,828	0	3,189,679	2,358,525	16,507,032

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of net assets are different because:

NET CHANGES - GOVERNMENTAL FUNDS		(5,208,864)
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(2,534,108)	
Capital Outlays	<u>8,577,118</u>	6,043,010
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.		
Principal Paid	1,670,000	
Bond Proceeds	<u>0</u>	1,670,000
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization-Bond Issuance Costs	(88,757)	
Accrued Interest Payable	12,534	
Accrued Sick Leave	<u>(295)</u>	(76,518)
In the statement of activities the net gain on the sale/disposal of assets is reported whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net assets differs from change in fund balances by the cost of the asset sold.		
Gain (Loss)- Sale of Assets		<u>(686)</u>
CHANGES - NET ASSETS GOVERNMENTAL FUNDS		<u><u>2,426,942</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,970,000	4,970,000	5,153,839	(183,839)
Other Local Sources			159,488	(159,488)
State Sources	21,465,000	21,465,000	27,791,294	6,326,294
Federal Sources	12,654	12,654	27,773	15,119
Other Sources	300,000	300,000	471,479	171,479
TOTAL REVENUES	26,747,654	26,747,654	33,603,873	6,856,219
EXPENDITURES:				
Instructional	16,678,344	16,678,344	21,682,408	(5,004,064)
Student Support Services	1,959,674	1,959,674	2,052,099	(92,425)
Staff Support Services	1,464,055	1,464,055	1,064,642	399,413
District Administration	972,729	972,729	779,670	193,059
School Administration	1,708,050	1,708,050	1,645,982	62,068
Business Support Services	463,460	463,460	427,216	36,244
Plant Operation & Maintenance	3,784,943	3,784,943	3,254,610	530,333
Student Transportation	2,796,239	2,796,239	2,275,173	521,066
Food Service Operations	2,033	2,033	6,951	(4,918)
Community Service Operations	8,000	8,000	6,417	1,583
Facility Acquisition & Construction	2,232,729	2,232,729	366,207	1,866,522
Other	3,291,571	3,291,571	96,346	3,195,225
TOTAL EXPENDITURES	35,361,827	35,361,827	33,657,721	1,704,106
NET CHANGE IN FUND BALANCE	(8,614,173)	(8,614,173)	(53,848)	8,560,325
FUND BALANCES - BEGINNING	8,614,173	8,614,173	11,012,676	0
FUND BALANCES - ENDING	0	0	10,958,828	8,560,325

On-behalf payments totaling \$6,025,858 are not budgeted by the Meade County School District.

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2009

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes				
Other Local Sources	70,150	35,000	46,951	(11,951)
State Sources	1,344,935	1,309,355	1,411,443	(102,088)
Federal Sources	4,503,075	2,745,016	2,031,816	713,200
Other Sources	1,367,850	192,691	96,346	96,345
TOTAL REVENUES	7,286,010	4,282,062	3,586,556	695,506
EXPENDITURES:				
Instructional	6,262,878	3,455,096	2,780,501	674,595
Student Support Services	82,410	38,987	37,588	1,399
Staff Support Services	521,705	371,062	342,072	28,990
School Administration	41,600	41,600	46,682	(5,082)
Plant Operation & Maintenance	17,000	17,000	17,000	0
Student Transportation	2,100			0
Community Service Operations	358,317	358,317	362,713	(4,396)
Facility Acquisition & Construction				0
TOTAL EXPENDITURES	7,286,010	4,282,062	3,586,556	695,506
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2009

	<u>FOOD SERVICE FUND</u>
ASSETS:	
Current Assets:	
Cash & Cash Equivalents	22,353
Investments	
Accounts Receivable	174,884
Inventories for Consumption	46,447
Total Current Assets	<u>243,684</u>
Noncurrent Assets:	
Furniture & Equipment	1,604,118
Less: Accumulated Depreciation	<u>(984,935)</u>
Total Noncurrent Assets	<u>619,183</u>
TOTAL ASSETS	<u><u>862,867</u></u>
LIABILITIES:	
Current Liabilities:	
Account Payable	240,523
Accrued Sick Leave	
Total Current Liabilities	<u>240,523</u>
Net Assets:	
Invested in Assets, Net of Debt	619,183
Unrestricted	3,161
Total Net Assets	<u><u>622,344</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>862,867</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	<u>FOOD SERVICE FUND</u>
OPERATING REVENUES:	
Lunchroom Sales	916,764
Other Operating Revenues	<u>3,061</u>
TOTAL OPERATING REVENUES	919,825
OPERATING EXPENSES:	
Salaries & Benefits	1,022,945
Contract Services	33,940
Materials & Supplies	1,420,850
Depreciation - Note F	78,349
Other Operating Expenses	<u>4,930</u>
TOTAL OPERATING EXPENSES	<u>2,561,014</u>
OPERATING INCOME(LOSS)	(1,641,189)
NONOPERATING REVENUES(EXPENSES):	
Federal Grants	1,305,538
State Grants	149,057
Donated Commodities	108,744
Interest Income	1,364
Miscellaneous Income	
TOTAL NONOPERATING REVENUE	<u>1,564,703</u>
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	(76,486)
CAPITAL CONTRIBUTIONS	<u>127,158</u>
CHANGE IN NET ASSETS	50,672
TOTAL NET ASSETS - BEGINNING	<u>571,672</u>
TOTAL NET ASSETS - ENDING	<u><u>622,344</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from:	
Lunchroom Sales	919,825
Cash Paid to/for:	
Employees	(902,628)
Supplies	(1,148,929)
Other Activities	(38,870)
	<hr/>

Net Cash Used by Operating Activities	(1,170,602)
---------------------------------------	-------------

CASH FLOWS FROM NON-CAPITAL AND RELATED
FINANCING ACTIVITIES:

Federal Grants	1,162,013
State Grants	28,739
	<hr/>

Net Cash Provided by Non-Capital and Related Financing Activities	1,190,752
---	-----------

CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:

Purchases of Capital Assets	(160)
-----------------------------	-------

CASH FLOWS FROM INVESTING ACTIVITIES

Receipt of Interest Income	1,364
	<hr/>

Net Decrease in Cash and Cash Equivalents	21,514
---	--------

Balances, Beginning of Year	999
	<hr/>

Balances, End of Year	22,353
	<hr/> <hr/>

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:

Operating Loss	(1,641,189)
----------------	-------------

Adjustments to Reconcile Operating Loss to Net Cash (Used)
by Operating Activities

Depreciation	78,349
State On-Behalf Payments	120,318
Donated Commodities	108,744
Change in Assets and Liabilities:	
Accounts Receivable	
Inventory	(22,451)
Accounts Payable	185,627
	<hr/>

Net Cash Used by Operating Activities	(1,170,602)
	<hr/> <hr/>

Schedule of Non-Cash Transactions:

Donated Commodities	108,744
State On-Behalf Payments	120,318
Capital Contributions	127,158

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2009

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	260,088
Accounts Receivable	2,808
Investment Income Receivable	
Loans Receivable	
Investments - Note D	
TOTAL ASSETS	<u>262,896</u>
LIABILITIES:	
Accounts Payable	7,168
Due to Student Groups	<u>255,728</u>
TOTAL LIABILITIES	<u>262,896</u>
NET ASSETS HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Meade County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Meade County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Meade County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Meade County Board of Education Finance Corporation – On August 9, 1989, the Board of Education resolved to authorize the establishment of the Meade County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on Pages 41 and 42. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2009, to finance the General Fund operations were \$0.4940 per \$100 valuation for real property, \$0.494 per \$100 valuation for business personal property, and \$0.546 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$17,614,658. Of the total cash balance, \$750,000 was covered by Federal Depository Insurance, \$15,302,532 covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. The District was under-collateralized by the remaining \$1,562,126 at Meade County Bank. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2009, consisted of the following:

	Bank Balance	Book Balance
First Federal Savings Bank	11,919,330	8,317,459
Meade County Bank	7,290,139	7,286,701
Traditional Bank	828,259	828,259
The Bank of New York	178,598	178,598
Morgan Stanley	432,253	432,253
PNC Institutional Investments	<u>571,388</u>	<u>571,388</u>
	<u>21,219,967</u>	<u>17,614,658</u>

Breakdown per financial statements:

Governmental Funds	17,332,217
Proprietary Funds	<u>22,353</u>
Subtotal	17,354,570
Agency Funds	<u>260,088</u>
Total Cash and Cash Equivalents All Funds	<u>17,614,658</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2009.

NOTE E – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Meade County School District Finance Corporation aggregating \$38,995,000.

The original amount of each issue and interest rates are summarized below:

1997	3,330,000	3.50% - 4.625%
2001 Refunding	775,000	3.50% - 4.00%
2002	845,000	2.70% - 4.90%
2002 Refunding	1,645,000	1.35% - 3.75%
2003	1,000,000	1.00% - 2.00%
2005	1,750,000	2.80% - 3.00%
2005 Refunding	4,340,000	3.00% - 3.80%
2006	18,060,000	3.50% - 4.25%
2006 Second Series	9,525,000	3.50% - 4.125%
2008	5,795,000	2.20% - 3.90%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The District, through the General Fund (including utility taxes and the Support Education Excellence (SEEK) Capital Outlay Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Meade County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “participation agreements” with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2009, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2009-10	1,725,000	1,491,830	174,768	3,042,062
2010-11	1,790,000	1,427,494	174,768	3,042,726
2011-12	1,830,000	1,367,035	174,767	3,022,268
2012-13	1,895,000	1,302,706	174,767	3,022,939
2013-14	1,950,000	1,231,719	158,050	3,023,669
2014-15	2,030,000	1,154,838	157,783	3,027,055
2015-16	2,105,000	1,077,379	157,784	3,024,595
2016-17	2,175,000	995,996	144,030	3,026,966
2017-18	1,975,000	915,846	114,647	2,776,199
2018-19	2,050,000	837,372	114,653	2,772,719
2019-20	2,130,000	755,241	114,655	2,770,586
2020-21	2,210,000	669,481	114,661	2,764,820
2021-22	2,300,000	579,956	114,670	2,765,286
2022-23	2,315,000	486,916	60,177	2,741,739
2023-24	2,405,000	391,789	53,775	2,743,014
2024-25	2,500,000	290,976	53,776	2,737,200
2025-26	2,600,000	185,577	53,775	2,731,802
2026-27	2,605,000	77,577	40,150	2,642,427
2027-28	<u>405,000</u>	<u>15,795</u>	<u>0.00</u>	<u>420,795</u>
	<u>38,995,000</u>	<u>15,255,523</u>	<u>2,151,656</u>	<u>52,098,867</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government					
Governmental Activities:					
Revenue Bond Payable	40,665,000	0	1,670,000	38,995,000	1,725,000
Accrued Sick Leave	<u>827,879</u>	<u>39,026</u>	<u>84,068</u>	<u>782,837</u>	<u>120,117</u>
Governmental Activities					
Long-Term Liabilities	<u>41,492,879</u>	<u>39,026</u>	<u>1,754,068</u>	<u>39,777,837</u>	<u>1,845,117</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	BEGINNING			ENDING
	<u>BALANCE</u>	<u>ADDITIONS</u>	<u>RETIREMENTS</u>	<u>BALANCE</u>
GOVERNMENTAL ACTIVITIES:				
Land	1,649,481	371,424		2,020,905
Land Improvements	3,046,727			3,046,727
Buildings & Building Improvements	68,305,970	6,236,791		74,542,761
Technology Equipment	2,353,804	208,421	35,819	2,526,406
Vehicles	3,815,732	325,297	196,365	3,944,664
General Equipment	1,126,867	12,122	6,000	1,132,989
Construction	422,116	1,423,063		1,845,179
TOTAL AT HISTORICAL COST	80,720,697	8,577,118	238,184	89,059,631
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Land Improvements	1,798,722	115,463		1,914,185
Buildings & Building Improvements	12,635,289	1,744,624		14,379,913
Technology Equipment	1,536,915	271,853	35,133	1,773,635
Vehicles	2,144,663	327,343	196,365	2,275,641
General Equipment	544,569	74,825	6,000	613,394
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	18,660,158	2,534,108	237,498	20,956,768
GOVERNMENTAL ACTIVITIES CAPITAL NET	62,060,539	6,043,010	686	68,102,863
PROPRIETARY ACTIVITIES:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	13,615			13,615
Vehicles	0			0
General Equipment	1,463,185	127,318		1,590,503
Construction	0			0
TOTALS AT HISTORICAL COST	1,476,800	127,318	0	1,604,118
LESS ACCUMULATED DEPRECIATION FOR:				
Land	0			0
Buildings & Building Improvements	0			0
Technology Equipment	8,940	1,257		10,197
Vehicles	0			0
General Equipment	897,647	77,092		974,739
Construction	0			0
TOTAL ACCUMULATED DEPRECIATION	906,587	78,349	0	984,936
PROPRIETARY ACTIVITIES CAPITAL NET	570,213	48,969	0	619,182
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				2,136,633
Student Support Services				0
Staff Support Services				4,707
District Administration				33,905
School Administration				225
Business Support Services				2,816
Plant Operation & Maintenance				28,621
Student Transportation				321,055
Central Office				4,882
Community Service Operations				1,264
TOTAL				2,534,108

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES

The District paid \$49,296 in rent during the year ended June 30, 2009. Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2009, as follows:

Year ending June 30:

2010	44,400
2011	27,281
2012	12,525
2013	4,570
2014	<u>0</u>
Total minimum payments	<u>88,776</u>

NOTE H – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members hired before July 1, 2008 are required to contribute 9.855% of their salaries and for members hired after July 1, 2008 to contribute 10.855% to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% and 14.105% of salaries respectively. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE)

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 13.50% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$24,465,991. The payroll for employees covered under KTRS was \$18,719,675 and for CERS was \$5,746,316.

For the year ended June 30, 2009, the Commonwealth contributed \$2,321,019 KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2009, were \$136,812, which represents those employees covered by federal programs.

The contribution requirements for CERS for the year ended June 30, 2009, was \$1,073,951, which consisted of \$775,754 from the Board and \$298,197 from the employees.

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2008	CERS June 30, 2008
Assets available for benefits, at fair value	15,321,300,000	5,731,502,438
Pension benefit obligation	<u>(22,460,300,000)</u>	<u>(7,304,217,691)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(7,139,000,000)</u>	<u>(1,572,715,253)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2008, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE I – COMMITMENTS

Extensive renovation of Flaherty Elementary School is ongoing as of the audit date. It is anticipated that the completion of this project will cost approximately \$16,373,447.

NOTE J – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently the District maintains insurance coverage through Ohio Casualty Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Food Service	76,486
Construction	6,715,245
Special Revenue	96,346
General Fund	8,142
SEEK Capital Outlay	238,498
Debt Service	3,044,435

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	96,346
Operating	SEEK	Construction	Construction	188,713
Operating	FSPK	Construction	Construction	2,979,734
Operating	FSPK	Debt Service	Debt Service	<u>3,038,097</u>
				<u>6,302,890</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2009.

NOTE Q – CAPITALIZED INTEREST

For the year ended June 30, 2009, the District incurred interest expense of \$1,626,621. Of this amount, \$156,306 was capitalized to the Ekron Elementary School construction project and \$1,470,315 was recorded as a current year expense.

NOTE R – SUBSEQUENT BOND ISSUANCE

Subsequent to June 30, 2009, the Meade County School District Finance Corporation had a revenue bond issue. Revenue Bond Series 2009 in the amount of \$10,905,000 was issued to finance the Flaherty Elementary School expansion project.

MEADE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2009

	SEEK CAPITAL OUTLAY FUND	FSPK FUND	DEBT SERVICE FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	148,897	2,033,525	178,598	2,361,020
Accounts		4,441		4,441
TOTAL ASSETS	<u>148,897</u>	<u>2,037,966</u>	<u>178,598</u>	<u>2,365,461</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	6,936			6,936
Total Liabilities	<u>6,936</u>	<u>0</u>	<u>0</u>	<u>6,936</u>
Fund Balances:				
Capital Projects Fund	141,961	2,037,966		2,179,927
Debt Service Fund			178,598	178,598
Total Fund Balances	<u>141,961</u>	<u>2,037,966</u>	<u>178,598</u>	<u>2,358,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u>148,897</u>	<u>2,037,966</u>	<u>178,598</u>	<u>2,365,461</u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	SEEK CAPITAL OUTLAY FUND	FSPK FUND	DEBT SERVICE	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes		1,900,000		1,900,000
Earnings on Investments		27,762	691	28,453
Intergovernmental - State	448,117	2,915,400	175,272	3,538,789
Other Sources				
TOTAL REVENUES	<u>448,117</u>	<u>4,843,162</u>	<u>175,963</u>	<u>5,467,242</u>
EXPENDITURES:				
Plant Operations & Maintenance	300,290			300,290
Facilities Acquisition & Construction	386,325			386,325
Debt Service:				
Principal			1,670,000	1,670,000
Interest			1,550,398	1,550,398
TOTAL EXPENDITURES	<u>686,615</u>	<u>0</u>	<u>3,220,398</u>	<u>3,907,013</u>
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	(238,498)	4,843,162	(3,044,435)	1,560,229
OTHER FINANCING SOURCES(USES):				
Operating Transfers In			3,038,097	3,038,097
Operating Transfers Out	(188,713)	(6,017,831)		(6,206,544)
TOTAL OTHER FINANCING SOURCES(USES)	<u>(188,713)</u>	<u>(6,017,831)</u>	<u>3,038,097</u>	<u>(3,168,447)</u>
NET CHANGE IN FUND BALANCES	<u>(427,211)</u>	<u>(1,174,669)</u>	<u>(6,338)</u>	<u>(1,608,218)</u>
FUND BALANCES - BEGINNING	<u>569,172</u>	<u>3,212,635</u>	<u>184,936</u>	<u>3,966,743</u>
FUND BALANCES - ENDING	<u><u>141,961</u></u>	<u><u>2,037,966</u></u>	<u><u>178,598</u></u>	<u><u>2,358,525</u></u>

See independent auditor's report and accompanying notes to financial statements.

MEADE COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	FUND BALANCE JULY 1, 2008	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2009
Battletown Elementary	3,943	2,180	3,235	2,888
David T Wilson Elementary	13,789	50,414	52,510	11,693
Ekron Elementary	17,321	18,702	17,666	18,357
Flaherty Elementary	38,597	31,438	27,146	42,889
Brandenburg Primary	6,243	30,380	27,846	8,777
Muldrough Elementary	14,500	24,822	22,828	16,494
Payneville Elementary	1,397	3,162	3,234	1,325
Stuart Pepper Middle	8,212	76,300	79,958	4,554
Meade County High	<u>174,593</u>	<u>577,845</u>	<u>603,688</u>	<u>148,750</u>
Total Activity Funds (Due to Student Groups)	<u><u>278,595</u></u>	<u><u>815,243</u></u>	<u><u>838,111</u></u>	<u><u>255,727</u></u>

MEADE COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2009

	CASH BALANCE JULY 1, 2008	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2009	ACCOUNTS RECEIVABLE JUNE 30, 2009	ACCOUNTS PAYABLE JUNE 30, 2009	FUND BALANCE JUNE 30, 2009
Athletic	11,544	106,829	118,183	190		190	0
Boys Basketball	1,008	10,692	10,930	770			770
Cheerleaders	0	5,845	5,078	767			767
Football	5,706	17,168	14,662	8,212		3,137	5,075
Football Conference	0	105	7	98			98
Flag Football	1,386	1,905	2,091	1,200		425	775
Tackle Football	2,294	8,185	9,574	905			905
Wrestling	41	14,978	14,799	220		113	107
Girls Basketball	2,076	8,715	9,804	987			987
Boys Golf	2,863	4,835	5,620	2,078			2,078
Soccer	9,540	28,775	38,104	211	2,808	2,442	577
Softball	758	3,686	3,408	1,036			1,036
Boys Tennis	177	244	421	0			0
Volleyball	964	5,981	6,460	485			485
Track/Cross Country	3,234	11,413	11,521	3,126			3,126
Swim	243	1,860	2,103	0			0
Baseball	7,575	1,345	7,030	1,890			1,890
Girls Golf	708		483	225			225
Girls Tennis	341	486	722	105			105
General	3,114	10,335	11,731	1,718		30	1,688
Machine Fund	170	14,149	14,307	12			12
Parking	161	3,690	3,276	575			575
Textbook Rental	5,730	43,565	41,353	7,942			7,942
Attendance	0	10		10			10
Machine Fund - Staff	1,555	3,056	2,240	2,371		81	2,290
Drama	7,325	6,954	4,164	10,115			10,115
FCA	2,303	595	1,967	931			931
FBLA	(100)	20,535	20,435	0			0
FFA	1,180	35,547	36,727	0			0
FCCLA	1,620	3,241	2,343	2,518			2,518
National Honor Society	4,883	6,308	8,448	2,743			2,743
Pep Club	2,361	3,957	3,730	2,588			2,588
Poetry	62	28	90	0			0
Rodeo	70	2,702	2,680	92			92
SADD	260	323	290	293			293
SADD 2	5,407		500	4,907			4,907

Science Club	417	85	64	438			438
Foreign Language	78	120	110	88			88
Tri - M	1,101	790	689	1,202			1,202
Youth In Charge	3,946	720	3,305	1,361			1,361
Chess	80		80	0			0
Technology Club	1,616	470	770	1,316			1,316
Youth for Unity	45		45	0			0
Archery	14	568	263	319	180		139
Counselors	1,344	2,202	2,038	1,508			1,508
Family & Consumer	14	485	499	0			0
Library	920	1,833	1,431	1,322			1,322
Mathematics	628	20	300	348			348
Technology Education	254	634	93	795			795
Bookstore	389	59	73	375			375
Band	0	63,033	57,080	5,953			5,953
Chorus	1,160	39,969	34,621	6,508	42		6,466
Dance	1,794	4,116	5,902	8			8
Intramural	394	971	574	791			791
Student Government	2,269	5,368	6,406	1,231			1,231
Prom	5,778	15,248	14,572	6,454			6,454
Majestic Memories	6			6			6
Newspaper	1,982	1,654	3,422	214			214
Yearbook	56,555	23,182	24,090	55,647			55,647
Tidal Wave Bank	885	909	1,286	508			508
Greenhouse	1,639	267	1,891	15			15
Splash	471	988	321	1,138			1,138
Credit Retrieval	0	510	17	493			493
Y - Club	0	9,906	9,899	7			7
JCC	434	225	150	509			509
Photography Club	756		756	0			0
FMD	15	134	116	33			33
SSS	520	95	272	343			343
Freshman Bookstore	120	56	83	93			93
Fine Arts	2,410	17,565	18,917	1,058			1,058
Wellness Program	0	7,530	7,450	80			80
Family Resources	0	355	334	21			21
School Nurse	0	1,690	680	1,010			1,010
Special Olympics	0	4,112	2,042	2,070			2,070
Total All Funds	174,593	593,911	615,922	152,582	2,808	6,640	148,750
Interfund Transfers	0	(18,874)	(18,874)	0	0	0	0
Total	174,593	575,037	597,048	152,582	2,808	6,640	148,750

MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	MUNIS PROJECT NUMBER	EXPENDITURES
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I Grants to Local Educational Agencies	84.010	3108	126,676
Title I Grants to Local Educational Agencies	84.010	3109	466,315
Title I Grants - Professional Development	84.010	3109D	45,693
Title I Grants - Parent Involvement	84.010	3108M	3,345
Title I Grants - Parent Involvement	84.010	3109M	1,395
Title I Grants - American Recovery & Reinvestment Act	84.010	3919	4,500
Title I Grants to Local Educational Agencies Total			647,924
 IDEA - Special Education - Grants to State	84.027	3378	55,838
IDEA - Special Education - Grants to State	84.027	3379	826,834
IDEA - Special Education - Preschool Grants	84.173	3439	51,731
IDEA - Special Education - Preschool Grants - American Recovery & Reinvestment Act	84.173	4239	2,574
IDEA - Special Education - Grants to State - American Recovery & Reinvestment Act	84.027	4249	24,029
Special Education Cluster			961,006
 Title III - Limited English Proficiency	84.365	3458	652
Title III - Limited English Proficiency	84.365	3459	2,921
Title III - Limited English Proficiency			3,573
 Vocational Education - Perkins	84.048	3487A	1,063
Vocational Education - Perkins	84.048	3488A	594
Vocational Education - Basic Grants to State	84.048	3488	2,658
Vocational Education - Basic Grants to State	84.048	3489	28,492
Vocational Education Cluster			32,807
 Teacher Quality Enhancement Grants	84.336	4018	12,495
Teacher Quality Enhancement Grants	84.336	4019	207,554
Teacher Quality Enhancement Grants			220,049
 Title IV - Safe & Drug Free Schools	84.186	4069	14,792
 Smaller Learning Communities	84.215L	5188	61,104
Smaller Learning Communities	84.215L	5189	82,742
Smaller Learning Communities			143,846
 Hurricane Impact Aid	84.938	6926	926
 Title II Education Technology	84.318X	4258	4,263
Title II Education Technology	84.318X	4259	2,628
Title II Education Technology Total			6,891
 Total U.S. Department of Education			2,031,814
 <u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002 08	212,822 *
National School Lunchroom	10.555	7750002 09	668,683 *
School Breakfast Program	10.553	7760005 08	65,338 *
School Breakfast Program	10.553	7760005 09	202,758 *
Child Nutrition Cluster			1,149,601
Passed-Through State Department of Agriculture			
In-Kind Contributions	10.550	N/A	108,744 *
Total U.S. Department of Agriculture			1,258,345
 Total Federal Financial Assistance			3,290,159

* Tested as major program

MEADE COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Meade County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unqualified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.550/10.553/10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

MEADE COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2009

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

November 10, 2009

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District, as of and for the year ended June 30, 2009, which collectively comprise the Meade County School District's basic financial statements and have issued our report thereon dated November 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Meade County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Meade County School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Meade County School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Meade County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Meade County School District's financial statements that is more than inconsequential will not be prevented or detected by the Meade County School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Meade County School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meade County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Meade County School District in a separate letter dated November 10, 2009.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Meade County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

November 10, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

Compliance

We have audited the compliance of Meade County School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Meade County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Meade County School District's management. Our responsibility is to express an opinion on Meade County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Meade County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Meade County School District's compliance with those requirements.

In our opinion, Meade County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control over Compliance

The management of Meade County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Meade County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Meade County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Meade County School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Meade County School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, members of the Board of Education of Meade County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

November 10, 2009

MANAGEMENT LETTER

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

In planning and performing our audit of the financial statements of Meade County School District for the year ended June 30, 2009, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Prior Year Recommendation:

It was noted during the audit that the cash receipts at Stuart Pepper Middle School were entered into the computerized accounting records as being received from the school's principle rather than the actual person the funds were received from. We recommend that the district communicate to the bookkeeper at Stuart Pepper Middle School to ensure when entering the receipts into the computerized accounting records to reflect precisely whom funds are received from.

The computerized accounting system properly reflected from whom funds were received.

Prior Year Recommendation:

It was noted during the audit that the use of the district's Kroger credit card was occurring without the use of a purchase order. We recommend that prior to releasing the Kroger credit card that a properly completed purchase order be required. This recommendation does not apply to the use of the Kroger credit card for special education class trips to Kroger for the purpose of teaching the special needs students in real life scenarios.

As recommended, purchase orders are being properly completed when the Kroger credit card is used.

Recommendation:

During the course of the audit, it was noted that Meade County School District was undercollateralized at Meade County Bank by \$1,562,126 as of June 30, 2009. We recommend that the District regularly monitor the level of pledged assets held at each financial institution to ensure that all deposits are fully collateralized.

Management Response:

We will take measures to ensure that all deposits are fully collateralized.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with various District personnel, and we will be pleased to perform any additional study of this matter or to assist you in implementing the recommendation.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
(270) 692-3615
Fax (270) 692-2101

Charles M. White, CPA

Email cmwcpa@windstream.net

November 10, 2009

Members of the Board of Education
Meade County School District
Brandenburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Meade County School District for the year ended June 30, 2009, and have issued our report thereon dated November 10, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133:

As stated in our engagement letter dated April 23, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Meade County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expression our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Meade County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Meade County School District's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Meade County School District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Meade County School District's compliance with those requirements.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Meade County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 10, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Meade County Board of Education and management of Meade County School District and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants